REPORT OF

ASSOCIATION EXAMINATION

OF

MUTUAL SAVINGS LIFE INSURANCE COMPANY

DECATUR, ALABAMA

AS OF

DECEMBER 31, 2000

PARTICIPATION:

SOUTHEASTERN ZONE

ALABAMA

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STATE OF ALABAMA
CITY OF DECATUR

James L. Hattaway, III, being first duly sworn, upon his oath deposes and says:

That he is an examiner appointed by the Commissioner of Insurance for the State of Alabama.

That an examination was made of the affairs and financial condition of Mutual Savings Life Insurance Company for the period January 1, 1997 through December 31, 2000.

That the following 42 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama.

And that the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.

James L. Hattaway, III

James L. Hattaway, III, CFE

Subscribed and sworn to before the undersigned authority this 12th day of April, 2002

Sandra V. Roden

(Signature of Notary Public)

Sandra V. Roden, Notary Public
(Print Name)
in and for the State of Alabama.

My commission expires June 30, 2003.

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 Monroe Street, Suite 1700
Post Office Box 303351
Montgomery, Alabama 36130-3351
Telephone: (334) 269-3550
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Don Siegelman
GOVERNOR

D. David Parsons
Commissioner

Chief Examiner
Richard L. Ford

State Fire Marshal
John S. Robison

General Counsel
Michael A. Bownes

April 12, 2002

Honorable Diane Koken, Chairman, Examination Oversight Committee
Commissioner, Pennsylvania Insurance Department
1326 Strawberry Square
Harrisburg, Pennsylvania 17120

Secretary, Southeastern Zone
Honorable Alfred W. Gross
Commissioner, Virginia Bureau of Insurance
Post Office Box 1157
Richmond, Virginia 23218

Honorable D. David Parsons, Commissioner of Insurance
State of Alabama
Post Office Box 303350
Montgomery, AL 36130-3350

Dear Commissioners:

Pursuant to your authorizations and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of the

Mutual Savings Life Insurance Company

at its Home Office located at 2801 Highway 31 South, Decatur, Alabama 35603, as of December 31, 2000. The report of examination is submitted herewith.

Where the description "Company" appears herein without qualification, it will be understood to indicate Mutual Savings Life Insurance Company.

SCOPE OF EXAMINATION

The Company was last examined for the five year period ended December 31, 1996, by examiners from Alabama representing the NAIC's Southeastern Zone. The current examination covers the intervening period from the date of the last examination through December 31, 2000, and was conducted by examiners from Alabama representing the NAIC's Southeastern Zone. The examination was conducted concurrently with the examination of the Company's subsidiary, Mutual Savings Fire Insurance Company (MSFIC), Decatur, Alabama. Where deemed appropriate, transactions subsequent to 2000 were reviewed.

The examination was made in accordance with the statutory requirements of the Alabama Insurance Code and the Alabama Insurance Department's regulations and bulletins; in accordance with the applicable guidelines and procedures promulgated by the NAIC; and in accordance with generally accepted examination standards and practices in connection with the verification of assets and determination of liabilities.

The examination included an inspection of corporate records, test checks of recorded income and disbursement items for selected periods, and a general review of records and files pertaining to operations, administrative practices and compliance with statutes and regulations. Assets were verified and valued and all known liabilities were established or estimated as of December 31, 2000, as shown in the Financial Statements contained herein. However, the discussion of specific assets or liabilities contained in this report is confined to those items where a change was made by the examiners, or which indicated violation of the Alabama Insurance Code or the Insurance Department's rules and regulations, or other insurance laws or rules, or which were deemed by the examiners to require comments and/or recommendations.

An office copy of the Company's filed Annual Statement for the year 2000 was compared with or reconciled to account balances with respect to ledger items.

The market conduct phase of the examination consisted of a review of the Company's plan of operation, territory, policy forms and underwriting practices, treatment of policyholders and claimants, advertising, and compliance with agents' licensing requirements.

The Company's accounts were examined by Deloitte Touche LLP, Certified Public Accountants, for the year 2000. For the years 1999 and 1998, the Company's' accounts were examined by Ernst & Young LLP, Certified Public Accountants. For the year 1997, the Company's accounts were examined by KPMG Peat Marwick LLP, Certified Public Accountants. Audit reports, management letters, certain audit confirmations and certain audit work papers were made available to the examiners. The CPA's work papers were reviewed and, when deemed appropriate, used in the completion of this examination.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attests to having valid title to all assets and to the non-existence of unrecorded liabilities as of December 31, 2000.

ORGANIZATION AND HISTORY

The Company was incorporated on January 8, 1927 under the laws of the State of Alabama governing mutual aid insurance companies. The original certificate of incorporation was filed for record in the office of the Judge of Probate of Morgan County, Alabama on December 28, 1926. The Company commenced business on January 10, 1927, with initial paid up capital of $6,000.

The purpose of the corporation as stated in the certificate of incorporation, was to do business as a mutual aid, benefit or industrial company or association, with the powers and privileges prescribed by the State of Alabama.

Since the date of organization, various changes in the authorized capital stock of the Company have been approved by the stockholders, as evidenced by amendments to the certificate of incorporation. The authorized capital stock at the date of organization as set forth in the certificate of incorporation was $20,000, comprised of 200 shares of $100 par value per share common stock.

On March 11, 1944, the stockholders adopted a resolution amending the certificate of incorporation to permit the Company to qualify as a legal reserve life insurance company. On April 1, 1944, the Company began operating as a legal reserve life insurance company with paid up capital of $100,000.

An amendment to the certificate of incorporation was approved by the stockholders on March 4, 1965, which authorized the capital of the Company to be $3,000,000, comprised of 3,000,000 shares of $1 par value per share common stock.

From January 6, 1971 to December 28, 1979, the Company repurchased and retired 857,545 shares of capital stock at an aggregate cost to the Company of $7,983,465.70 for an average cost per share of $9.31.

On December 31, 1986, the Company purchased Southern United Life Insurance Company (SULIC), Montgomery, Alabama and its subsidiary, Southern United Fire Insurance Company, Montgomery, Alabama, and moved both companies' operations to Decatur, Alabama in 1987. The Company entered into an Assumption Reinsurance Agreement with SULIC, which was executed December 31, 1986, and effective on January 1, 1987, whereby the Company assumed all SULIC's in force ordinary and industrial life and health insurance. Southern United Fire Insurance Company was sold to an unrelated party on April 14, 1989, and SULIC was sold to an unrelated party on December 30, 1992.

Mutual Savings Group, Inc. (MSG), a Delaware corporation, was organized in 1988 with its certificate of incorporation filed for record on September 14, 1988. MSG was organized by the Company for the purpose of facilitating a leveraged buy-out (LBO) of control of the Company by the Company's Employee Stock Ownership Plan (ESOP). MSG's initial capitalization in the amount of $1,261,191 was provided by the Company. In a transaction effective September 30, 1988, the Company contributed 100% of MSG to the ESOP. Prior to the leveraged buy-out, the ESOP owned 219,191 shares of the Company's stock. On September 30, 1988, the ESOP borrowed $56,500,000 (referred to as the ESOP Funding Arrangement in this report) to purchase 611,472 shares of the Company's stock, and purchased an additional 17,735 shares for cash, giving the ESOP a total of 848,398 shares of the Company's stock. MSG then entered into a five-for-one stock swap with the Company's ESOP, in which MSG gave five newly issued shares of its stock (4,241,990 total shares) in exchange for each share of the Company's stock (848,398 shares) owned by ESOP. This transaction was effective on September 30, 1988, and as a result, MSG initially acquired 75.2% of the common stock of the Company, and the ESOP acquired 99.75% of the outstanding common stock of MSG.

At December 31, 1996, the capital structure of the Company consisted of 2,858,347 authorized shares of common stock with a $2.00 par value per share, with 1,090,292 shares issued and outstanding, for a total capital of $2,180,584, and gross paid in and contributed surplus of $500,891.

As part of a settlement in 1996 of a class-action lawsuit filed in 1984, the Company conveyed equity in the Company to the Plaintiff's (Class Members) amounting to approximately thirty-three percent (33%) of the total equity of the Company. The Court entered an Order approving the Settlement Agreement on February 6, 1997. The Order became final and the Settlement Agreement became effective on March 21, 1997.

The Settlement Agreement, as approved by the Court provided for the following:

a) The issuance by the Company to a Trustee for the benefit of the Beneficiary Class, 141,653 shares of a new, dividend paying, non-voting class of common stock (Class B Stock).
b) The issuance by the Company to a Trustee for the benefit of the Policyholder Class, 400,000 Warrants to acquire Class A Stock of the Company.
c) The reformation of all outstanding burial policies to provide that the Company will pay cash, equal to the full face value of said policy, rather than funeral services or merchandise, as provided under the policies.
d) The release of all claims that were or could have been asserted by or on behalf of any class member against the Company with respect to any Burial Policy.
e) The payment by the Company of $2.5 million to the plaintiffs' attorneys for fees and expenses.

The Company retained the services of Willamette Management Associates (WMA), an independent valuation expert, to issue an opinion on the fair value of the Class B Common Stock and the Warrants. They concluded that the fair value of the Class B Common Stock was $3.1 million and the fair value of the Warrants was $7.5 million. The Class B stock and Warrants are to remain in trust until 2004, at such time the Class B Stock and Warrants will be converted into either Class A Stock of the Company or Common Stock of the MSG. The converted stock will then be sold as directed by the Company and the proceeds distributed in cash to the class members.

On December 4, 1998, Primesco acquired through a cash tender offer and merger, 100% of the outstanding Common stock of MSG and, by virtue of that transaction and Primesco's related cash tender offer for the Class A Common Stock (voting) of the Company, Primesco became the owner of approximately 95% of the Class A Common Stock of the Company. Primesco's acquisition of MSG and the Company resulted in the termination of the ESOP. As part of the acquisition, Primesco repaid the indebtedness arising from the 1988 leveraged buy out of the Company by the ESOP to including $7,000,000 owed to the Company by the ESOP. In connection with the repayment of the leveraged buyout indebtedness, the Common Stock of MSG and the Common Stock of the Company pledged to secure such indebtedness was released. MSG merged with and into Primesco, and the separate existence of MSG ceased.

During 1999 management proceeded with its plan for the Company to repurchase the minority interest not owned by Primesco. The repurchase of 43,579 shares of Class A Common Stock as fractional shares in connection with the reverse stock split of the Class A Common Stock reduced capital and surplus by approximately $2.5 million. The Company also redeemed 141,653 shares of Class B Common Stock, which reduced capital and surplus by approximately $5.3 million. The Company redeemed a warrant, which reduced capital and surplus by approximately $5.0 million. These transactions were funded in part, by two surplus notes from Primesco totaling approximately $10.5 million. The notes pay interest quarterly at annual rates ranging from 7.75% to 8.5% subject to the approval by the Alabama Commissioner of Insurance. Any repayment of principal is subject to approval by the Alabama Department of Insurance and may be paid only out of the Company's earned surplus in excess of $35.0 million. As a result of these transactions, Primesco owned 100% of the Class A Common Stock of the Company (with the Class B Common Stock and the warrant being retired).

To acquire MSG and the Company, Primesco obtained equity funds of approximately $11.6 million from investors, exchanged shares of Common Stock of Primesco for shares of Common Stock of the Company valued at an aggregate amount of $5,911,626 and obtained a line of credit from Colonial Bank of $50.8 million, all of which was outstanding at December 31, 2000. The loan from Colonial Bank is amortized over a period of 15 years (with a balloon payment at the end of five years), and is secured by all of the outstanding capital stock of the Company owned by Primesco. A separate loan for $6.0 million was due in one installment on January 1, 2001 and was subsequently extended to January 1, 2002, with interest due July 1, 2001 and at maturity.

See "SUBSEQUENT EVENTS" for additional discussion.

CORPORATE RECORDS

The Company's articles of incorporation and bylaws, as amended, were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practice and applicable statutes and regulations.

Minutes of meetings of the stockholders and Board of Directors were reviewed for the period under examination. The minutes appeared to be complete with regard to recording actions taken on matters before the respective bodies for deliberation and action, except as noted otherwise in this report.

MANAGEMENT AND CONTROL

Stockholders

At December 31, 2000, the Company was 100% owned by Primesco, Inc., a Delaware corporation. See "Organization and History" for a detailed discussion. Primesco owned 1,046,713 shares of the 3,000,000 authorized shares of $2 par value common stock.

The Company owns 100% of the outstanding common stock of Mutual Savings Fire Insurance Company.

Board of Directors

The Company's bylaws, as amended, provide that the business and affairs of the Company shall be managed by the Board of Directors, subject to limitations imposed by law, the articles of incorporation or the bylaws, as to actions that require authorization or approval by the shareholders. The number of directors shall be fixed by resolution of the Board of Directors, provided that such number shall not be less than three (3) directors, and at least one-third of said directors shall be bona fide residents of the State of Alabama. Members of the Board of Directors are elected by the stockholders at each annual meeting. The number of directors to serve for the year 2000 was set at five members by the sole stockholder of the Company.

Members elected to the Board of Directors by the stockholder on June 15, 2000 and serving at December 31, 2000, were as follows:

Director/Address	Principal Occupation
Charles Larimore Whitaker Birmingham, Alabama	Chairman of the Board, President, and CEO Mutual Savings Life Insurance Company
Walter Jones Hughes Birmingham, Alabama	Executive Vice President, COO Mutual Savings Life Insurance Company
Melvin Robert Hutson Greenville, South Carolina	Attorney Self-employed
Christopher Harwood Bernard Mills London, England	Chief Investment Officer J.O. Hambro Capital Management Limited
Francis Williams Thomas, Jr. Birmingham, Alabama	Investment Banker Raymond James Financial Services, Inc.

Officers

Company management represented that the following individuals were the officers of the Company at December 31, 2000; however, Article Five of the Company's by-laws require that elected officers (Chairman of the Board, a President, one or more Vice Presidents, a Secretary and a Treasurer) are to be elected each year following the annual meeting of the Company's shareholders. The last date that the full slate of officers was elected was June 16, 1998.

Charles Larimore Whitaker	Chairman of the Board, President & COO
Walter Jones Hughes	Chief Operating Officer & Executive Vice President – Marketing
Don Francis Morrison	Senior Vice President – Operations and Secretary
Glenn Alan Lansdell	Senior Vice President and General Counsel
George Arthur Armour	Regional Vice President
Larry Joe Burton	Regional Vice President
Woodie Lee Melton	Regional Vice President
Bobby Jefferson Outlaw	Regional Vice President
Joseph Calvin Chapman	Vice President
Robert Elerby Colburn	Vice President
Kenneth O'Neal Jordan	Vice President
Ronald John Koch	Vice President, Treasurer & CFO
James Richard Lown	Vice President
Joe Michael Moore	Vice President
Stephen Richard O'Shea	Vice President
Murry Joe Woodard	Vice President
Susan Elizabeth Adams	Assistant Vice President and Assistant Treasurer
Frankie Drinnen Graves	Assistant Vice President
Judy Oakley Hagen	Assistant Vice President
Deborah Marie Holmes	Assistant Vice President
Bruce Homer Lea	Assistant Vice President
Roger Don Schaffer	Assistant Vice President
James Harlon Wallace, Jr.	Assistant Vice President
David Carr Weatherford	Assistant Vice President
Thomas Russell White	Assistant Vice President
Sandra Vest Roden	Assistant Secretary
Roger H. Moss, Jr.	Medical Director

Executive Committee

The Company's Board of Directors established an Executive Committee, to consist of three members, on December 15, 1998. The members of the Board of

Directors elected to the Executive Committee were Charles Larimore Whitaker, Walter Jones Hughes, and Francis Williams Thomas, Jr.

Investment Advisory Committee

The Company's Board of Directors established an Investment Advisory Committee on November 15, 1994. There were no minutes provided to the examiners for any meetings occurring during the period covered by this examination. It was indicated that the Investment Advisory Committee had been superceded by the investment advisory agreements with outside consultants on February 17, 1999.

Conflict Of Interest

The Company had an established procedure for annual disclosure, in writing to the Board of Directors, of any material interest or affiliation on the part of any of its officers, directors and responsible employees "which would conflict or might reasonably be supposed to conflict with the proper performance of their company duties or responsibilities, or which might tend to affect their independence of judgment with respect to transactions between the Company and such other business enterprise." The examiner was provided copies of Conflict of Interest Statements for the years 1997-2000 signed by Board members and Officers of the Company. The examiner reviewed the signed statements and found that no conflicts were reported.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration

The Company is deemed to be subject to the Alabama Insurance Holding Company Regulatory Act as defined in Section 27-29-1, Code of Alabama 1975, as amended. In connection therewith, the Company is registered with the Alabama Department of Insurance as joint registrant with Mutual Savings Fire Insurance Company of an Insurance Holding Company System.

Appropriate filings required under the Holding Company Act are made from time to time by the Company as joint registrant. A review of the Company's filings during the period under review indicated that all required disclosures were included in the Company's filings during the examination period.

Dividends To Stockholders

The following dividends to stockholders were paid during the current examination period:

Year	Cash
1997	$1,196,532
1998	$1,231,945
1999	$3,506,489
2000	$6,102,337

Management and Service Agreements

The Company provided a copy of a January 2, 1974 service agreement between Mutual Savings Life Insurance Company and Mutual Savings Fire Insurance Company. The Company was unable to provide evidence that this agreement was approved by the Alabama Department of Insurance as required by Section 27-29-5, Code of Alabama 1975, as amended. In addition, this agreement was not disclosed in the 2000 Form B as required by Section 27-29-4, Code of Alabama 1975, as amended.

Under a separate Management Services Agreement between Primesco, Mutual Savings Life Insurance Company and Mutual Savings Fire Insurance Company:

The Company pays the salaries of all officers and employees of the entire holding company group. In addition to the salaries, the Company pays a 15% "fee" to the parent company (15% of the salaries of all employees in the Holding Company). Company management states, "The fee serves two functions. First while MSLIC provides all salary and benefits to its employees, it is recognized by MSLIC that it receives services from its parent, and there are duties and functions performed by persons who act as executive officers of MSLIC and Primesco, which have a value above and beyond the regular payroll. Second, the 15% fee is a more direct and simple way of recognizing the economic effect among the subsidiaries of Primesco's responsibilities for financing and investment and other specified functions of the consolidated enterprises." The Company did not provide supporting evidence from cost analysis or time studies that the fees were fair and reasonable. In addition to the 15% fee, the Company pays a .4% fee (.4% of the fair market value of the average assets of the Company) for "advice regarding the investment portfolio and advice regarding the 401-K accounts of employees."

The contract contained a provision that the Company irrevocably agrees to pay the fees included in the agreement. Management agreed during the course of the examination to remove the irrevocable language from the contract.

The contract required that Primesco, Inc. submit invoices monthly to the Company, describing in reasonable detail the services provided, the charges related thereto and other direct expenses to be reimbursed. Furthermore, it states that the Company must remit payment, within thirty days of receipt of the invoice, to Primesco. In addition, the agreement provided that Primesco may waive any part or all of the fees payable to it under this agreement. Primesco must make such waiver in writing. During the period covered by this examination, the Company did not receive detailed monthly invoices from Primesco. Fees were paid on a monthly basis for January, February and March of 2000. Management stated that after March of 2000, "management decided to waive the fee. At the end of the year it was decided that the fee should be charged and the waiver was rescinded, not deferred." Management did not provide written support for the waiver or for the rescission of the waiver. In addition, the waiver and related rescission were not disclosed in the Form B filings as required by Section 27-29-4, Code of Alabama 1975, as amended.

Consolidated Tax Allocation Agreement

The examiner reviewed the intercompany income tax agreement, which was in effect as of 12/31/2000. The Company maintains that the agreement is still in effect but the Company was ineligible to participate because of having a new parent company, effective December 4, 1998.

After subsequent discussions with the Company, the Company agreed to cancel the agreement. The agreement was cancelled at the November 12, 2001 Board meeting.

Organizational Chart

The following chart presents the identities of and interrelationships among all affiliated persons within the Insurance Holding Company System at December 31, 2000:

Primesco, Inc.*

100%

Mutual Savings Life Insurance Company, Inc.

100%

Mutual Savings Fire Insurance Company, Inc.

*Shareholders of Primesco, Inc. with an ownership of greater than 10% of common capital stock were: C. Larimore Whitaker with 191,622 shares, or 13.59%, and various funds and nominees of J. O. Hambro Capital Mgmt. with 362,143 shares, or 25.68%.

Primesco, Inc. owned 100% of the Company's outstanding common capital stock at December 31, 2000. J. O. Hambro Capital Management, Ltd and C. Larimore Whitaker were not identified on Schedule Y-Part 1. The failure to include these ultimate controlling person(s) conflicted with the NAIC Annual Statement Instructions. Control, according to Section 27-29-1(3), Code of Alabama 1975, as amended, "shall be presumed to exist if any person, directly or indirectly owns, controls, holds with the power to vote, or holds proxies representing five percent or more of the voting securities of any other person." At December 31, 2000, various funds and nominees of J. O. Hambro Capital Management, Ltd and C. Larimore Whitaker owned 25.68% and 13.59%, respectively, of Primesco, Inc.'s common capital stock including voting rights.

FIDELITY BOND AND OTHER INSURANCE

The Company's insurance coverage was examined as of the December 31, 2000. The Company provided copies of insurance coverage for fiduciary liability, workers' compensation and employers' liability, directors' and officers' liability, and commercial umbrella liability. It was determined that as of December 31, 2000 the Company did not carry fidelity bond coverage for protection against dishonest or fraudulent acts of the employees. According to the NAIC Financial Examiners' Handbook, the Company's minimum amount of suggested coverage should be between $900,000 and $1,000,000.

EMPLOYEE AND AGENT WELFARE

Employee benefits included the following: group health, dental, vision and life insurance, short and long term disability insurance, educational incentives, 401(k) retirement plan, service awards, and paid leave, including vacation, sick leave, jury duty, and bereavement.

SPECIAL DEPOSIT SCHEDULE

At December 31, 2000, the Company maintained the following deposits with the respective statutory authorities, as required or permitted by law:

	Par or Book Value	Statement Value	Market Value
State of Alabama Statutory Deposit	$300,000	$297,967	$324,000
State of Florida Statutory Deposit	$1,000,000	$996,734	$1,021,250
State of Georgia Statutory Deposit	$100,000	$99,673	$102,125

The above deposits were confirmed directly with the respective custodians.

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review:

Year	Admitted Assets	Liabilities	Capital	Surplus Funds	Premium Income
1996*	$272,583,496	$256,914,340	$2,180,584	$13,488,572	$47,575,068
1997	277,718,793	262,169,140	2,463,890	13,085,763	46,451,493
1998	282,322,501	261,782,755	2,463,890	18,075,856	45,261,156
1999	291,907,101	271,855,362	2,093,426	17,958,313	44,990,709
2000*	288,871,284	272,425,619	2,093,426	14,352,239	44,772,523

* Per Examination

MARKET CONDUCT ACTIVITIES

Plan of Operation

At December 31, 2000, the Company's sales organization consisted of an agency sales and service field force, which was responsible for the marketing and servicing of its various lines of insurance products. The insurance products are offered to low-to-middle income households through a home service approach. The agents are assigned territories called "Agencies" where they contact customers in their homes to sell insurance and collect premiums. This method of marketing requires frequent face-to-face contact. The field force is divided into districts. Each district consists of agents, management and support personnel, all employees of the Company. The district managers are under the supervision of regional vice presidents. At December 31, 2000, the Company employed 27 district managers, 97 sales managers and 463 agents.

The field management and agents are compensated by a service commission based on agency size and sales commissions, based on newly produced business and retention. The sales commission varies according to the type policy written.

Territory

The Company was licensed to transact business in the following states at December 31, 2000:

Alabama	Louisiana
Florida	Mississippi
Georgia	Tennessee

The Certificates of Authority from the respective states for the four-year period covered by this examination were inspected and appeared to be in order.

Policy Forms and Underwriting Practices

Through its agency field force, the Company offers various traditional life and term insurance plans on a non-participating basis. The Company does not issue any participating policies, although certain participating business has been acquired through acquisitions of business from other companies. The Company issues policies on standard and sub-standard risks, with the sub-standard rates ranging from Table B and beyond including all reasonable risks. Life contracts offered by the Company include whole life, limited payment life, and joint life plans. Term insurance is offered on a level, decreasing, and increasing term basis. Policy forms used by the Company field force were submitted for approval in each respective state.

The maximum amount of insurance retained by the Company on any one life is determined by the age and health of the applicant. The retention limit of the Company is no more than $50,000 on any one policy.

The minimum whole life policy issued by the Company at December 31, 2000, was $5,000, with no stated maximum.

The Company also offers various accident and health policies. The primary types offered are accident only policies, hospital indemnity, and cancer and dread disease policies. The Company reinsures all accidental death policies and accidental death riders issued.

Dividends to Policyholders

The Company paid no dividends to policyholders during the examination period.

Treatment of Policyholders and Claimants

A selected number of policy and claim files were reviewed in order to evaluate the Company's claims payment practices and policyholder treatment. Claims sampled were reviewed with regard to compliance with policy provisions, timeliness of payment, and adequacy of documentation. The review did not reveal any noteworthy discrepancies in the Company's claims payment practices. It appears the Company treated policyholders and claimants in a fair manner and generally paid claims promptly, upon receipt of appropriate proof of loss.

The Company only included complaints and inquiries involving state insurance departments in its complaints register. The Company should include all complaints (written grievances) in its complaints register, in accordance with the NAIC Market Conduct Examiners' Handbook.

Advertising and Marketing

The Company's primary advertising consists of printed materials such as sales aids and brochures. All advertising was planned and coordinated by Home Office personnel. The Company was unable to provide a complete file of the advertisements as required in the Alabama Department of Insurance Regulation Number 69.

Compliance With Agents' Licensing Requirements

A review of company records was made by the examiners to determine that agents representing the Company were duly licensed. Listings of licensed agents were obtained from the Agent's License Division of the Alabama Department of Insurance.

The examiners selected a number of agents who were paid commissions on direct business written. This information was compared to the lists of licensed agents provided by the insurance department's licensing division. Based on this review, it appears the Company paid commissions only to properly licensed agents.

REINSURANCE

Reinsurance assumed

The Company did not assume reinsurance during the four years covered by this examination.

Reinsurance Ceded

The Company ceded reinsurance to two reinsurers, licensed in Alabama, under life reinsurance agreements and contracts with total reserve credits taken of $2,519,179 for life business and $118,438 in A&H business, as reflected in Schedule S of its 2000 Annual Statement. The total reserve credit taken on life business was approximately 1% of total life reserves. The total reserve credit taken on A&H business represented less than 1% of total A&H reserves

A bulk accidental death benefit reinsurance treaty with Optimum Re Insurance, effective January 1, 1998, which covered Individual and Joint Accidental Death Benefit Riders issued by the company on January 1, 1998 or later, represented $1,926,337 of the $2,519,179 life reserve ceded. In addition, policies issued prior to January 1, 1998 and currently reinsured on an individual cession basis under other agreements, were reinsured under this agreement on a bulk basis effective January 1, 1999.

ACCOUNTS AND RECORDS

The Company's principal accounting records were maintained by data processing equipment. The general ledger was supported by subsidiary ledgers and other auxiliary records, some of which were kept manually.

The Company updated its disaster plan/contingency plan during the period covered by this examination; however, it had not yet tested this updated plan.

Access to the Company's computer room and tape library was not limited to computer operations personnel. The IS department daily sends data files and system files to an offsite location. The annual backup (historical data) is permanently maintained offsite.

The Company was unable to produce the detail of certain reconciling items due to the data not being maintained, except on hard copy, as of year-end 2000.

The accounting department's responsibilities include maintaining the general ledger and its underlying journals and sub-ledgers, processing premium payments, accounting for district office collections and expenses, processing mortgage loan payments, accounting for investment income and invested assets and financial statement preparation and reporting.

The Company's accounting records were maintained principally on a cash basis, except at annual statement date, when they were adjusted to an accrual basis.

Entries to the schedules and exhibits of the annual statements for the years under examination were reconciled to the appropriate trial balances. Supporting data verifying amounts in the trial balances were examined.

The Company was audited annually by an independent firm of certified public accountants. During the course of the examination, copies of all audited reports and management letters were reviewed for the four-year period covered by this examination.

In general, the accounting records appeared to reflect the operations during the period under review and the condition of the Company at the date of examination, unless otherwise commented upon under appropriate captions elsewhere in this report.

FINANCIAL STATEMENTS INDEX

The Financial Statements included in this report were prepared on the basis of the Company's records, and the valuations and determinations made during the examination for the year 2000. Amounts shown in the comparative statements for the years 1997, 1998, 1999, and 2000 were compiled from Company copies of filed Annual Statements. The statements are presented in the following order:

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

MUTUAL SAVINGS LIFE INSURANCE COMPANY
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
For the Year Ended December 31, 2000

ASSETS	Ledger Assets	Non-Ledger Assets	Non-Admitted Assets	Net Admitted Assets
Bonds (Note 1)	$251,028,778		$ 694,366	$250,334,412
Preferred stocks	2,107,291			2,107,291
Common stocks	1,600,643	1,441,956		3,042,599
Mortgage loans on real estate	738,396		81,613	656,783
Real estate:				
Properties occupied by the Company	5,645,463			5,645,463
Investment real estate	3,568			3,568
Policy loans (Note 2)	6,788,502	-88,693		6,699,809
Cash and short-term investments	4,322,349			4,322,349
Other invested assets	3,268,110			3,268,110
Amounts recoverable from reinsurers		169,500		169,500
Electronic data processing equipment	292,345			292,345
Federal income tax recoverable and interest thereon		855,258	270,258	585,000
Guaranty funds receivable or on deposit (Note 3)	167,172			167,172
Life insurance premiums and annuity considerations deferred and uncollected on in force business (Note 4)		8,077,758	528,740	7,549,018
Accident and health premiums due and unpaid		368,471		368,471
Investment income due and accrued		3,722,943	63,549	3,659,394
Receivable from parent, subsidiaries and affiliates (Note 5)	355,924		355,924	0
Other assets non-admitted	-246,699		-246,699	
Aggregate write-ins for other than invested assets	591,425	0	591,425	0
TOTAL ASSETS	$276,663,267	$14,547,193	$2,339,176	$288,871,284

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

MUTUAL SAVINGS LIFE INSURANCE COMPANY
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
(Continued from the previous page)
For the Year Ended December 31, 2000

Aggregate reserve for life policies and contracts **(Note 6)**			$246,455,821
Aggregate reserve for accident and health policies **(Note 7)**			14,875,285
Supplementary contracts without life contingencies **(Note 8)**			630,285
Policy and contract claims-Life			1,996,599
Policy and contract claims-Accident and health			329,984
Policyholders' dividend and coupon accumulations			109,863
Policyholders' coupons payable in following year			22,250
Premiums and annuity considerations received in advance			355,550
Interest maintenance reserve **(Note 9)**			1,569,076
Commissions to agents due or accrued **(Note 10)**			303,530
General expenses due or accrued **(Note 11)**			1,201,267
Taxes, licenses and fees due or accrued			24,678
Unearned investment income			17,349
Amounts withheld or retained by company as agent or trustee			1,072,040
Amounts held for agents' account			397,004
Liability for benefits for employees and agents			145,677
Asset valuation reserve			2,900,539
Payable to parent, subsidiaries and affiliates			18,822
TOTAL LIABILITIES			$272,425,619
Common capital stock		$2,093,426	
Surplus notes	$10,477,652		
Unassigned funds (surplus) **(Note 12)**	3,874,587		
TOTAL SURPLUS		$14,352,239	
TOTAL CAPITAL AND SURPLUS			$ 16,445,665
TOTAL LIABILITIES, CAPITAL AND SURPLUS			$288,871,284

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

MUTUAL SAVINGS LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS
For the Years Ended December 31,

	1997	1998	1999	2000
INCOME				
Premiums and annuity considerations	$46,451,493	$45,261,156	$44,990,709	$44,772,523
Considerations for supplementary contracts with life contingencies			10,067	
Considerations for supplementary contracts without life contingencies and dividend accumulations				
Net investment income	18,307,663	18,513,716	17,569,482	18,217,191
Amortization of Interest Maintenance Reserve	83,178	83,108	530,393	216,800
Commissions and expense allowances on reinsurance ceded			472,632	728,997
Miscellaneous income	105,897	233,461	517,599	481,666
TOTAL INCOME	$64,948,231	$64,091,441	$64,090,882	$64,417,177
DEDUCTIONS				
Death benefits	$14,156,196	$14,177,243	$14,182,047	$14,603,710
Matured endowments	400,042	851,555	482,268	394,024
Annuity benefits	1,165,493	1,141,586	1,109,740	1,069,619
Disability benefits and benefits under accident and health policies	4,475,594	5,067,807	4,858,110	5,656,160
Coupons, guaranteed annual pure endowments and similar benefits	33,800	-6,300	-10,800	5,550
Surrender benefits and other fund withdrawals	2,603,762	2,564,584	2,709,642	2,910,746
Interest on policy or contract funds	267,875	293,376	303,667	301,730
Payments on supplementary contracts with life contingencies	6,126	6,055	6,055	6,055
Payments on supplementary contracts without life contingencies and of dividend accumulations	21,300	35,703	29,494	91,526
Increase in aggregate reserves for life and accident and health policies and contracts	5,060,477	4,692,029	3,690,584	3,261,213
Increase in reserve for supplementary contracts without life contingencies and for dividend and coupon accumulations	-40,861	-312,461	-8,864	-23,515
Commissions on premiums and annuity considerations	11,148,914	10,881,259	13,150,337	13,514,945
General insurance expenses	12,769,268	14,109,644	14,683,689	15,828,683
Insurance taxes, licenses, and fees	1,893,323	1,880,784	2,115,546	1,962,240
Increase in loading on and cost of collection in excess of loading on deferred and uncollected premiums	1,138,180	272,491	822,531	431,110
Aggregate write-ins for deductions	5,932,567	4,349,502	-3,685	1,819,757
TOTAL DEDUCTIONS	$61,032,056	$60,004,857	$58,120,361	$61,833,553
Net gain from operations before and after dividends to policyholders and before federal income taxes	$ 3,916,175	$ 4,086,584	$ 5,970,521	$ 2,583,624
Federal income taxes incurred	300,000	300,000	-136,153	-1,959
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	$ 3,616,175	$ 3,786,584	$ 6,106,674	$ 2,585,583
Net realized capital gains or (losses)	1,817	10,100	62,771	-526,685
NET INCOME	$ 3,617,992	$ 3,796,684	$ 6,169,445	$ 2,058,898

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF

MUTUAL SAVINGS LIFE INSURANCE COMPANY
CAPITAL AND SURPLUS ACCOUNT
For the Years Ended December 31,

	1997	1998	1999	2000
Capital and surplus, December 31, previous year	$15,669,156	$15,549,653	$20,539,746	$20,051,739
Net Income	$ 3,617,992	$ 3,796,684	$ 6,169,445	$ 2,058,898
Change in net unrealized capital gains or (losses)	274,925	-164,066	21,240	523,498
Change in non-admitted assets	102,736	-110,177	55,401	-416,366
Change in reserve on account of change in valuation basis			-2,162,865	-240,883
Change in asset valuation reserve	581,376	759,597	-920,248	-70,388
Change in surplus notes			10,477,652	0
Capital changes:				
Paid in	283,306		-370,464	
Surplus adjustments:				
Paid in	10,316,694		-10,817,585	
Dividends to stockholders	-1,196,532	-1,231,945	-3,506,489	-6,102,337
Aggregate write-ins for gains and losses in surplus	-14,100,000	1,940,000	565,906	641,504
Net change in capital and surplus for the year	$ -119,503	$ 4,990,093	$ -488,007	$ -3,606,074
Capital and surplus, December 31, current year	$15,549,653	$20,539,746	$20,051,739	$16,445,665

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1 – Bonds $250,334,412

The captioned amount is the same as reflected in the Company's 2000 Annual Statement.

The examiner's review of investments indicated the Company's Board of Directors had agreed to enter into an investment advisory agreement with Sovereign Holdings and Conseco Capital Management in February 1999. These agreements authorized the advisors to invest for the Company without prior notice of the investments. The Company later has the authority to reject the investments. The minutes of the Board of Directors do not indicate voting to approve the investments as required by Section 27-41-5, Code of Alabama 1975, as amended.

Note 2 – Policy loans $6,699,809

The captioned amount is $88,693 less than the $6,788,502 reported in the Company's 2000 Annual Statement.

The Company did not have a field for cash surrender values on its in-force reserve listings. A file had to be created that included a cash surrender value field for the examiners.

There were 212 policy loans that exceeded the cash surrender value of the related policy. There were 36 policy loans that did not have a related policy on the reserve listings. The total over-loan for policy loans that exceeded the cash surrender value of the related policy or where an underlying policy was not identified was $88,693.

Note 3 – Guaranty funds receivable or on deposit $167,172

The captioned amount is the same as reported by the Company's in its 2000 Annual Statement.

The amount reported in the Company's Annual Statement for Guaranty Funds Receivable or on Deposit is overstated by the amount of $21,744. The captioned amount is comprised of amounts subject to amortization in prior years that were not expensed because there were no premium taxes payable to take the premium tax credit from. The credits were not used and there was no allowance for them to be carried forward. The asset was not appropriately written off.

The adjustment necessary to correct the asset account balance is not material; therefore, no adjustment is made to the financial statements contained in this report.

Note 4 - Life insurance premiums and annuity considerations deferred and uncollected **$7,549,018**

The captioned amount is $528,740 less than the $8,077,758 reported by the Company in its 2000 Annual Statement.

The Department's consulting actuary determined that the loading factors used by the Company appeared to have been unchanged for some indeterminate number of years. The consulting actuary requested that the Company provide an updated estimate of the net deferred and uncollected premium asset, based on a re-evaluation of the premium load factors. In response, the Company made available to the examiner a recent study, which had been performed for the purpose of determining whether the Ordinary Life net deferred, and uncollected premium asset had been grossly misstated. The study used policy net premiums from the master file; however, it was not intended as a re-evaluation of the total asset, as it omitted various plans and all ancillary benefit coverages. The net premium asset determined by the subset of business covered by the study was $528,740 (6.6%) lower than the amount for the Ordinary Life portion of this statement item.

Based on the limited current information available to the Department's consulting actuary, it appeared that the Company's life premiums deferred and uncollected asset was overstated. Therefore, the examiners reduced the Company's asset by the amount of the overstatement listed in the Company's incomplete study until such time as the Company complies with the recommendations contained within this report relating to this asset.

Note 5 – Receivable from parent, subsidiaries and affiliates **$ -0-**

The captioned amount is $355,924 less than the $355,924 reported in the Company's 2000 Annual Statement.

The Company established a receivable for $355,924 at year-end 2000 for interest payments that had been inappropriately made on surplus notes to Primesco, the Company's parent. Primesco waived the interest on the surplus notes for the year 2000 and the interest payments should not have been made. The Company received reimbursement from Primesco on November 5, 2001 for the entire $355,924; however, these improper payments were outstanding from March and June of 2000 until November 5, 2001, resulting in an interest-free loan to Primesco for over 1 1/2 years.

Section 27-41-36, Code of Alabama 1975, as amended which requires that the Company not invest in nor lend its funds upon the security of any note or other evidence of indebtedness of any director, officer or controlling stockholder of the insurer. Therefore, the examiners have non-admitted the receivable in the financial statements contained in this report.

Note 6 – Aggregate reserve for life policies and contracts $246,455,821

The captioned amount is $2,119,714 more than the $244,336,107 reported by the Company in its 2000 Annual Statement. The $2,119,714 change relates to (1) a $1,625,000 reserve reduction due to a change in basis of valuation that was not approved by the Alabama Department of insurance and (2) a $494,714 aggregate increase in reserves where the cash surrender values of certain policies exceeded the carried reserves.

In the 2000 Annual Statement, the Company reduced reserves by $1,625,000 due to what the Company identified as "reserve redundancies." The Company maintained that during 2000 the Company conducted a detailed study to determine whether any reserve redundancies existed. The examiners requested this study but was provided instead a response from the Company's opining actuary that indicated they he had merely re-determined current reserves using a male/female basis rather than a male basis, with the difference being the redundancy. No cash flow analysis was performed or any prior studies reviewed at that time to determine whether there would be any adverse impact on the future profitability of the blocks affected. Such an analysis should have been considered at that time pursuant to Actuarial Standards of Practice.

The Company inappropriately included the reserve change in Exhibit 8 and thereby the summary of operations. This resulted in the Company overstating its net income in 2000 by $1,625,000. In addition, Section 27-36-7(h), Code of Alabama 1975, as amended states that "An insurer which at any time shall have adopted any standard of valuation producing greater aggregate reserves than those calculated according to the minimum standard provided in this section may, with the approval of the commissioner, adopt any lower standard of valuation, but not lower than the minimum provided in this section." The Company did not seek or receive approval of the Commissioner for this lower standard of valuation. Therefore, this reduction of reserves was not in compliance with statute and is not allowed in this report of examination. It is also noted that the Company further reduced reserves by $1,950,000 in 2001 due to "reserve redundancies." This change also inappropriately flowed through Exhibit 8 of the Annual Statement, overstating income by $1,950,000 in 2001. The Company did not seek or receive approval from the Commissioner for this change in standard of valuation.

SSAP No. 51, paragraph 32, effective January 1, 2001, of the NAIC Accounting Practices and Procedures Manual, states that "A change in valuation basis shall be defined as a change in the interest rate, mortality and morbidity assumptions, or reserving method (e.g. net level, preliminary term, etc.) or other factors affecting the reserve computation of policies in force...Consistent with SSAP No. 3, any increase (strengthening) or decrease (destrengthening) in actuarial reserves resulting from such a change in valuation basis shall be recorded directly to surplus rather than as a part of the reserve change recognized in the summary of operations."

For premium paying policies, there were 5,700 records where the cash surrender value exceeded the carried reserve by an aggregate amount of $307,786.

For paid up policies, there were 2,197 records where the cash surrender value exceeded the carried reserve by an aggregate amount of $69,784.

For extended term policies, there were 6,323 records where the cash surrender value exceeded the carried reserve by an aggregate amount of $117,144.

Note 7 – Aggregate reserve for accident and health policies $14,875,285

The captioned amount is the same as reported by the Company in its 2000 Annual Statement.

During the immediately preceding financial examination of the Company, the Department's consulting actuary had reserve factor recalculations made for a variety of the Company's cancer plans. Cancer plans constitute the bulk of the Company's A&H in force premium and reserves. The reserve factor recalculation indicated a wide divergence, in many cases, between the reserve factors used by the Company and the recalculated factors. There has been little, if any, improvement in valuation documentation since the last financial examination of the Company.

For this examination, some reserve factor verification on non-cancer A&H plans was attempted. For much of its A&H business, the Company did not have available complete valuation specifications, such as: detailed plan benefit schedules, periods of coverage, premium-paying periods, valuation morbidity and mortality tables, and valuation interest rates. The Department's consulting actuary made reserve factor recalculation tests using such information as was available, and determined that the A&H reserve factors used by the Company could not be reproduced with the limited valuation specifications on hand. The Department's consulting actuary indicated that the A&H reserve factors used by the Company are not necessarily inappropriate; however, the appropriateness, or lack thereof, of those reserve factors could not be ascertained due to the inadequate documentation of valuation assumptions.

Since the attempt at reserve factor verification failed, a trend analysis of A&H reserves per policy was performed. The general increase of reserve per policy, for all categories combined, seems to be a feature characterizing the aging of this business.

The aggregate reserve for accident and health policies data sets tied to Exhibit 9 with immaterial exceptions totaling $17,897. $17,889 of this immaterial difference resulted from the Company providing its industrial accident and health detail as of January 31, 2001 instead of at the annual statement date of December 31, 2000.

The Company's policy detail of A & H reserves does not include a field identifier for policies that are noncancellable or guaranteed renewable. The A & H reserves for noncancellable and guaranteed renewable contracts were not recorded and maintained in a manner that the inventory of such contracts could be provided.

Exhibit 9 and Schedule H of the 2000 annual statement were not accurately completed. The Company did not report its reserves for the noncancellable and guaranteed renewable policies, but reported all of its A & H reserves in the column "all other."

Note 8 - Supplementary contracts without life contingencies **$630,285**

The captioned amount is $72,385 more than the $557,900 reported by the Company in its 2000 Annual Statement.

There was a recommendation made during the preceding Report of Examination that the Company review the mature and pure endowments to determine the proper amount due to the policyholders. The Company was to attempt to locate each policyholder and if located, pay the policyholder the amount due plus interest from the date matured to the date paid. In cases where the policyholder could not be located, the benefit was to be remitted to the proper state under unclaimed property laws. While reviewing this line item, it was determined that the Company had not accrued or paid interest on the matured policy proceeds paid to the policyholders. The estimated accrued interest on the unpaid endowment funds increased the liability for this line item by $72,385.

Note 9 – Interest maintenance reserve **$1,569,076**

The captioned amount is the same as reported by the Company in its 2000 Annual Statement.

The Company used the percentage amortization table in the 1999/2000 Annual Statement Instructions for both the 1999 and 2000 years, rather than downloading the amortization table from the NAIC website. The examiner recalculated the IMR liability and the annual amortization released to the Summary of Operations, which were both $137 greater than what the Company reported. As this amount is not material, no change is reflected in the financial statements contained in this report.

Note 10 – Commissions to agents due or accrued **$303,530**

The captioned amount is the same as reported by the Company in its 2000 Annual Statement.

The Company could not make available a detailed inventory of commissions due and accrued, listing the amount of commissions due and accrued for each agent and the policies on which commissions were payable.

Note 11 - General expenses due or accrued **$1,201,267**

The captioned amount is $472,375 more than the $728,892 reported by the Company in its 2000 Annual Statement.

The examiners identified a severance and consulting agreement with Don A. Johnson, President prior to the Company's acquisition by Primesco, Inc. This contract provided that payments will be made to Mr. Johnson unless he breaches the confidentiality or non-solicitation provisions of the contract. The unrecorded amount of this liability was $216,460.

The examiners also identified legal expenses and settlements paid in 2001 that related to cases that were open prior to December 31, 2000. The examiners identified $255,915 of payments made during 2001 that were not covered by the accrual established by the Company.

Note 12 - Unassigned Funds (Surplus) **$3,874,587**

The unassigned funds (surplus) of the Company, as determined by this examination, was $3,637,831 less than the $7,512,418 reported by the Company in its 2000 Annual Statement.

This difference resulted from the following examination changes.

Unassigned funds per Company's 2000 Annual Statement		$7,512,418
Examination (decreases) to assets:		
Policy loans	$ (88,693)	
Life insurance premiums and annuity considerations deferred and uncollected on in force business	(528,740)	
Receivable from parent, Subsidiaries and affiliates	(355,924)	
Total (decrease) to assets		$ (973,357)
Examination (increases) to liabilities:		
Aggregate reserve for life policies	(2,119,714)	
Supplementary contracts without life contingencies	(72,385)	
General expenses due or accrued	(472,375)	
Total (increase) to liabilities		$(2,664,474)
Total (decrease) to surplus		$(3,637,831)
UNASSIGNED FUNDS PER EXAMINATION		$ 3,874,587

SUBSEQUENT EVENTS

The Department is currently conducting a multi-state targeted examination to determine if any current or historical race based pricing activities were engaged in by the Company. The Company has responded to all data and information requests posed by the examiners to date in this regard. It is anticipated, barring any delays in responding to future data or information requests, that the examiners' preliminary report will be available for distribution and review within the next two months.

On October 30, 2001, the Company acquired a block of policies from Atlanta Life Insurance Company ("Atlanta Life") through a coinsurance/assumption agreement ("the Agreement"). The service agreement portion of the Agreement requires the Company to provide all servicing for policies transferred to the Company. The financial aspects of the transaction transferred approximately $121 million in policy reserves and other liabilities along with approximately $95.3 million in assets with the difference of $25.7 million being a ceding fee to Atlanta Life. The ceding fee was a direct charge to operations in the last quarter 2001. The acquisition was funded by the Company's issuance of a surplus note to Primesco (the Company's parent) for $27 million in cash.

The Company closed on an Assumption Reinsurance Agreement with Spry Life & Accident Insurance Company, Inc. ("Spry") where the Company bulk reinsured and permanently assumed all of the policies of Spry. There were approximately 28,000 paid up policies with approximately $2.7 million in policy liabilities being assumed. Cash was transferred to cover all policy liabilities less approximately $268,000, which was a ceding fee paid to acquire the policies.

Due to NAIC Codification, effective January 1, 2001, the Company recorded a net admitted federal income tax recoverable of $2.7 million, which included a $15.0 million net deferred tax asset.

During the last quarter of 2001, the Company was affected by the Enron bankruptcy. Certain bonds, primarily Enron-related, were written down as a permanent decline in value. The incurred loss on bonds was approximately $851,378 before taxes. The Company did not disclose the recognition of this impairment loss as required by the NAIC Annual Statement Instructions. In addition, the Company disclosed, as a cumulative change to surplus as a result of Codification, a decrease to surplus of $454,366 due to the write down of its

Laidlaw bond in default as a permanent impairment of the security. The Company admitted the Laidlaw bond at a value of $260,000 on December 31, 2000. At December 31, 2001, the admitted value of the Laidlaw bond was $500,000, resulting in an **increase** to surplus of $240,000 instead of the $454,366 **decrease** to surplus reflected by the Company in its Notes to Financial Statements.

Management represented that, regarding the "ORGANIZATION AND HISTORY" section of this examination report, the surplus notes were amended in 2001 to provide that the repayment of principal will be made only if the Company's earned surplus exceeds $55 million. Also, the loan agreement with Colonial Bank was renegotiated in October 2001. The loan continues to be amortized over a period of fifteen years, but the balloon payment is now due on December 31, 2006. All outstanding loans were consolidated into one loan of $75 million and Primesco obtained an additional line of credit pursuant to a revolving credit agreement of $10 million from Colonial Bank.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The Department is currently conducting a multi-state targeted examination to determine if any current or historical race based pricing activities were engaged in by the Company. The Company has responded to all data and information requests posed by the examiners to date in this regard. It is anticipated, barring any delays in responding to future data or information requests, that the examiners' preliminary report will be available for distribution and review within the next two months.

The examiners also identified legal expenses and settlements paid in 2001 that related to cases that were open prior to December 31, 2000. The examiners identified $255,915 of payments made during 2001 that were not covered by the accrual established by the Company. Therefore, the accrual for general expenses due or accrued has been increased by this amount.

The Company is involved in litigation from time to time with claimants, beneficiaries, and others. Based on information presently available, and in light of legal and other defenses available to it, management does not believe that matters arising from threatened and pending litigation are expected to have a material adverse effect on the financial position, results of operations or cash flows of the Company.

The Company is a defendant in a purported class action suit filed on December 15, 1999, pending in the United States District Court, Northern Division of Alabama, alleging, among other things, that the Company discriminated against African-Americans by selling insurance at higher rates and failed to disclose to certain insured's that more affordable insurance may be available elsewhere. The Company is also a defendant in a suit filed on December 28, 2000, in Mississippi state court, on behalf of five individuals, containing similar allegations of discrimination. Similar allegations of discrimination have been filed by other plaintiffs against other insurance companies. The Company believes that the allegations contained in the complaints are untrue, without merit, and it intends to mount a vigorous defense; however, the ultimate outcome cannot be predicted.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regard to the Company's compliance with the recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with the prior recommendations, with the exception of the following:

Fidelity Bonds and Other Insurance – Page 14

As reported in the previous examination, a recommendation was made to the Company about maintaining the minimum amount of fidelity bond coverage for protection against dishonest or fraudulent employees. As of December 31, 2000, the Company had not complied with the recommendation.

Supplementary contracts without life contingencies – Page 30

During the prior examination, there was a recommendation made that the Company review the mature and pure endowments to determine the proper amount due to the policyholders. The Company was to attempt to locate each policyholder and if located, pay the policyholder the amount due plus interest from the date matured to the date paid. In cases where the policyholder could not be located, the benefit was to be remitted to the proper state under the unclaimed property law. While reviewing this line item, it was determined that the Company had not accrued or paid interest on the matured policy proceeds paid to the policyholders. The estimated accrued interest on the unpaid endowment funds increased the liability for this line item by $72,385.

COMMENTS AND RECOMMENDATIONS

The following summary presents comments and recommendations that are made in the current report of examination.

Officers – Page 8

It is recommended that the Company annually elect its elected officers (Chairman of the Board, a President, one or more Vice Presidents, a Secretary, and a Treasurer) as soon as reasonably practical after the annual meeting of the shareholders in accordance with the Company's By-Laws.

Management and Service Agreements – Page 11

It is recommended that the Company submit the service agreement between Mutual Savings Life Insurance Company and Mutual Savings Fire Insurance Company for approval as required by Section 27-29-5, Code of Alabama 1975, as amended.

It is recommended that the Company disclose all affiliated management and service agreements and the related fees in Form B filings as required by Section 27-29-4, Code of Alabama 1975, as amended.

It is noted that the Company did not maintain supporting cost analysis or time studies demonstrating that the fees paid to affiliates were fair and reasonable.

It is noted that the Company pays the salaries of all officers and employees of the entire holding company group. In addition to the salaries, the Company pays a 15% "fee" to the parent company (15% of the salaries of all employees in the Holding Company). Company management states, "The fee serves two functions. First while MSLIC provides all salary and benefits to its employees, it is recognized by MSLIC that it receives services from its parent, and there are duties and functions performed by persons who act as executive officers of MSLIC and Primesco, which have a value above and beyond the regular payroll. Second, the 15% fee is a more direct and simple way of recognizing the economic effect among the subsidiaries of Primesco's responsibilities for financing and investment and other specified functions of the consolidated enterprises."
In addition to the 15% fee disclosed above, the Company pays a .4% fee (.4% of the fair market value of the average assets of the Company) for "advice regarding the investment portfolio and advice regarding the 401-K accounts of employees."

It is recommended that the Company modify the agreement to remove all "irrevocable" language from the contract.

It is recommended that the Company operate in accordance with the terms of the agreement by requiring monthly invoices from Primesco, paying the required fees thirty days after receipt of the invoices, and requiring written notices regarding waivers and rescissions of waivers.

Organizational chart – Page 12

It is recommended that the Company include all ultimate controlling persons in Primesco, Inc. in Schedule Y- Part 1 in accordance with the NAIC Annual Statement Instructions.

Fidelity bonds and other insurance – Page 14

It is again recommended that the Company obtain at least the minimum amount of fidelity coverage for protection against dishonest or fraudulent acts of the Company's employees in accordance with the NAIC Financial Examiners' Handbook.

Treatment of Policyholders and Claimants – Page 17

It is recommended that the Company include all complaints (written grievances) in its complaints register, in accordance with the NAIC Market Conduct Examiners' Handbook.

Advertising – Page 17

It is recommended that the Company comply with the Alabama Department of Insurance Regulation Number 69, Section VII requiring an insurer to maintain at its home or principal office a complete file containing a specimen copy of every printed, published, or prepared advertisement of its individual policies and specimen copies of typical printed, published, or prepared advertisements of its blanket, franchise, and group policies, hereafter disseminated in this State, with a notation indicating the manner and extent of distribution and the form number of any policy advertised. All such advertisements shall be maintained in said file for a period of either four years or until the filing of the next regular report on the examination of the insurer, whichever is the longer time period.

Accounts and Records – Page 18

It is recommended that the Company test its updated disaster plan/contingency plan to determine its reliability.

It is recommended that the Company strengthen its internal controls by limiting access to its computer room and tape library to computer operations personnel.

It is recommended that the Company maintain a complete record of its assets in accordance with Section 27-27-29, Code of Alabama 1975, as amended. These records should include electronic detail of all items that are maintained on the Company's computer system.

Bonds – Page 25

It is recommended that the Company comply with Section 27-41-5, Code of Alabama 1975, as amended, by requiring the Board of Directors to authorize, approve, or ratify the investments.

Policy loans – Page 25

It is recommended that the Company maintain complete in-force reserve records including cash surrender values.

It is recommended that the Company non-admit the portion of each policy loan that exceeds the cash surrender value of the underlying policy.

Guaranty funds receivable or on deposit – Page 25

It is recommended that the Company report the asset, Guaranty Funds Receivable or on Deposit in compliance with Section 27-44-9 (g) and 27-44-13 (a), Code of Alabama 1975, as amended. **It is further recommended** that the Company write off any portion of the asset that cannot be offset against its premium tax liability.

Life insurance premiums and annuity considerations deferred and uncollected – Page 26

It is recommended that the Company reanalyze the premium loading factors each year in order to obtain appropriate data if the Company intends to continue its practice of estimating the net deferred and uncollected asset by the aggregate method it has been using. Alternatively, in order to eliminate the need for frequent premium loading analysis, **it is recommended** that the Company maintain net valuation premiums on an individual policy basis.

Receivable from parent, subsidiaries and affiliates – Page 26

It is recommended that the Company not invest in nor lend its funds upon the security of any note or other evidence of indebtedness of any director, officer or controlling stockholder of the insurer in accordance with Section 27-41-36, Code of Alabama 1975, as amended.

Aggregate reserve for life policies and contracts – Page 27

It is recommended that the Company not adopt any lower standard of valuation without receiving approval from the Alabama Commissioner of Insurance in accordance with Section 27-36-7 (h), Code of Alabama 1975, as amended.

It is recommended that the Company account for any changes in standards of valuation in accordance with the NAIC Accounting Practices and Procedures Manual SSAP 51, which requires that changes in valuation basis not be recognized in the Company's summary of operations.

It is recommended that the Company submit a detail cash flow analysis in line with Actuarial Standards of Practice to the Alabama Department of Insurance and seek approval for the reserve reductions that occurred in 2000 and 2001 (without receiving the approval of the Alabama Department of Insurance). Prior studies of recent origin and appropriate applicability to the blocks of business whose reserves are being destrengthened may be used for this purpose.

Until the Company receives approval for the reserve reduction, **it is recommended** that the Company compute its reserves utilizing the standard of valuation that was previously in effect.

It is recommended that the Company maintain and compare records of policy reserves and cash surrender values on a policy level basis. It is recommended that the Company carry the higher of the policy reserve or cash surrender value as the liability on each in-force policy.

Aggregate reserve for accident and health policies – Page 28

It is recommended that the Company maintain complete and accurate statutory reserve valuation specifications including detailed plan benefit schedules, periods of coverage, premium-paying periods, valuation morbidity and mortality tables, and valuation interest rates for all of its A&H plans.

It is recommended that the Company maintain all detailed information supporting the Accident and Health -Additional contract reserves reported in Exhibit 9 of its future annual financial statements.

It is recommended that the Company accurately report its reserves for noncancellable and guaranteed renewable policies as required in Exhibit 9 and Schedule H of the annual statement. It is also recommended that the records of such policies be recorded in a manner that the detailed inventory of noncancellable and guaranteed renewable policies can be identified.

Supplementary contracts without life contingencies – Page 30

It is recommended that the Company comply with prior period recommendations requiring the Company to review the mature and pure endowments to determine the proper amount due plus interest from the date matured to the date paid to the policyholders.

Interest maintenance reserve – Page 30

It is recommended that the Company utilize the correct amortization table when calculating its IMR liability in accordance with the NAIC Annual Statement Instructions.

Commissions to agents due or accrued – Page 30

It is recommended that the Company comply with Section 27-27-29 (a), Code of Alabama 1975, as amended. Regarding commissions, the Company should maintain its records of commissions due and accrued in a manner that a detailed listing of the amounts of commissions due and accrued for each agent are available for examination. Also, the Company should maintain its records in a manner that a listing of policies of which commissions were due and accrued are available for examination.

General expenses due or accrued – Page 30

It is recommended that the Company establish a liability for severance/consulting/employment agreements that are not cancellable by both parties.

It is recommended that the Company establish an accrual for estimated costs to defend, settle and pay potential judgements for outstanding litigation as required by the NAIC Accounting Practices and Procedures Manual.

Subsequent events – Page 33

It is recommended that the Company make disclosures, as required by the NAIC Annual Statement Instructions, regarding the recognition of impairment losses on assets.

It was noted that the Company inaccurately disclosed a $454,366 reduction to surplus, due to Codification, relating to its investment in a Laidlaw bond, when surplus actually increased by $240,000 due to the change in market and admitted value of this bond.

CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by the officers and employees of the Company during the course of this examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, W. O. Myrick, CFE, Mary B. Packard, CFE, and F. Blase Abreo, Rhonda B. Ball, Tisha R. Freeman, and Palmer W. Nelson, examiners, examiners for the Alabama Department of Insurance, and Craig M. Hill, ASA, MAAA, and John MacBain, FSA, MAAA consulting actuaries, representing the Alabama Department of Insurance, participated in the examination of Mutual Savings Life Insurance Company.

Respectfully submitted,

James L. Hattaway, III, CFE
Examiner-in-Charge
Department of Insurance
State of Alabama
Southeastern Zone, NAIC

Don Siegelman
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 Monroe Street, Suite 1700
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Facsimile: (334) 241-4192

D. David Parsons
Commissioner

Chief Examiner
Richard L. Ford

State Fire Marshal
John S. Robison

General Counsel
Michael A. Bownes

February 28, 2001

Mr. C. Larimore Whitaker
Mutual Savings Life Insurance Company
P. O. Box 2222
Decatur, AL 35609-2222

Re: Financial Examination As Of December 31, 2000

Dear Mr. Whitaker:

This letter is to inform you of a financial examination of your company called by the Alabama Department of Insurance and to authorize Jim Hattaway, CFE, Examiner, to conduct the examination. This authorization is pursuant to the instructions of Alabama Insurance Commissioner, D. David Parsons, and in compliance with the statutory requirements of the State of Alabama and resolutions adopted by the National Association of Insurance Commissioners.

Your examination is to commence on or about April 9, 2001, and will be conducted primarily in your offices. The expected duration of the examination is approximately six months. Preliminary planning of your examination will first begin in the offices of the Alabama Department of Insurance. The examiner will arrive in your offices on or after this date. You will be contacted by Mr. Hattaway regarding the exact arrival date at your offices.

The Alabama Insurance Department has adopted work policies and rules governing work hours, leave and unacceptable conduct including sexual harassment. If you have any question about our examiner's conduct at your offices, please contact me immediately.

As part of your examination, the enclosed internal control and information systems questionnaire is required to be completed for review by our examiner. Please complete and return the questionnaire to this Department within 30 days, addressed to the attention of the Examiners' Division. The questions may be answered on the questionnaire itself or on a separate sheet if additional explanation is required. If possible, your CPA's workpapers and a representative of your CPA firm should be available the week of April 9, 2001, for review at your offices.

Invoices covering examination fees and related expenses will be submitted to the appropriate company official in accordance with standard Departmental policy. Payment of any examination charges so invoiced are due within two business days following presentation of the invoice.

Sincerely,

Richard L. Ford, CFE, CIE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk
Enclosures

cc: Jack M. Brown, CFE
Jim Hattaway, CFE
Sean Duke

Don Siegelman
GOVERNOR

STATE OF ALABAMA
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D. David Parsons
Commissioner

Chief Examiner
Richard L. Ford

State Fire Marshal
John S. Robison

General Counsel
Michael A. Bownes

February 28, 2001

Donald G. Yates, FSA MAAA
Actuarial Resources Corporation
5424 Afton Drive
Birmingham, AL 35242

Re: Examination of Mutual Savings Life Insurance Company As of December 31, 2000

Dear Mr. Yates:

This letter is to request and authorize your participation in the examination of the above referenced company for the purpose of computing reserves and making other valuations in your usual manner.

The examination will begin on or about April 9, 2001. The examination for this company is being conducted in the company's offices at 2801 Hwy 31 South, Decatur, AL 35603, and will cover the period ending December 31, 2000. The expected duration of the examination is approximately six months.

The Examiner-in-Charge will be Mr. Jim Hattaway. Please contact him at the company after the beginning date to coordinate the scheduling of your portion of this examination. The company telephone number is (256) 552-7011.

If your schedule does not permit you to accept this assignment, please let me know so that other arrangements can be made.

Thank you for your assistance in this matter.

Sincerely,

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

cc: Jack M. Brown, CFE
Jim Hattaway, CFE
Sean Duke

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
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Don Siegelman
GOVERNOR

D. David Parsons
Commissioner

Chief Examiner
Richard L. Ford

State Fire Marshal
John S. Robison

General Counsel
Michael A. Bownes

May 1, 2001

Robert Carlisle
President
Insurance Logic, Inc.
3530 Ashford Dunwoody Road, Suite 108
Atlanta, GA 30319

Re: **Examination of Mutual Savings Life Insurance Company**
As of December 31, 2000

Dear Mr. Carlisle:

This letter is to request and authorize your participation in the examination of the above referenced company for the purpose of computing reserves and making other valuations in your usual manner.

The examination began on or about April 9, 2001. The examination for this company is being conducted in the company's offices at 2801 Hwy 31 South, Decatur, AL 35603, and will cover the period ending December 31, 2000. The expected duration of the examination is approximately six months.

The Examiner-in-Charge will be Mr. Jim Hattaway. Please contact him at the company after the beginning date to coordinate the scheduling of your portion of this examination. The company telephone number is (256) 552-7011.

If your schedule does not permit you to accept this assignment, please let me know so that other arrangements can be made.

Thank you for your assistance in this matter.

Sincerely,

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

cc: Jack M. Brown, CFE
Jim Hattaway, CFE
Sean Duke

DON SIEGELMAN
GOVERNOR

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D. DAVID PARSONS
COMMISSIONER

DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
JOHN S. ROBISON

GENERAL COUNSEL
MICHAEL A. BOWNES

LICENSING MANAGER
JIMMY W. GUNN

May 9, 2001

KPMG
Attn: Laurie Bowers
Financial Center, Suite 1200
505 20th Street North
Birmingham, AL 35203-2674

Re: Request for CPA Workpapers in December 31, 1997 Examination of Mutual Savings Life Insurance Company and Mutual Savings Fire Insurance Company

Dear Ms. Bowers:

We received your May 7, 2001 Fax regarding the request for inspection of the workpapers prepared in the referenced examination.

The request to inspect the workpapers is made by your client pursuant to Section 13 of Regulation 100. The letter of qualification your firm provided your insurer client should consent and agree to make available for review by the Commissioner, his designee or his appointed agent, the workpapers prepared in your examination. This agreement and consent is required by Section 12 of Regulation 100. Any copies of your firm's workpapers included in the Department's files will remain confidential to the extent provided under Alabama law.

If you have any questions, please advise.

Sincerely,

Jack M. Brown

Jack M. Brown
Assistant Chief Examiner

cc: Richard Ford
Jim Hattaway, Examiner-in-charge

Mutual Savings Life

Insurance Company • A Primesco Company

HOME OFFICE:
2801 Highway 31 South
Decatur, AL 35603-1509

TELEPHONE: (256) 552-7011
FAX: (256) 552-7284

PREFERRED MAILING ADDRESS:
P. O. Box 2222
Decatur, AL 35609-2222

April 12, 2002

Mr. James L. Hattaway, III, CFE
Examiner-In-Charge
Alabama Department of Insurance
Post Office Box 303350
Montgomery, AL 36130-3350

Dear Mr. Hattaway:

In connection with your examination of the statutory financial statement of Mutual Savings Life Insurance Company, as of December 31, 2000, and for the year then ended for the purpose of stating that the statutory statements present fairly the statutory financial position of Mutual Savings Life Insurance Company in conformity with the accounting practices prescribed or permitted by the Alabama Department of Insurance and the National Association of Insurance Commissioners, we confirm, to the best of our knowledge and belief, the following representations made to you during your examination.

Certain representations in this letter are described as being limited to those matters that are material. Solely for the purpose of preparing this letter, the term "material," when used in this letter, means any item or group of similar items involving potential amounts of more than $225,000. These amounts are not intended to represent the materiality threshold for financial reporting and disclosure purposes. Notwithstanding this, an item is considered material, regardless of size, if it involves an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We are responsible for the fair presentation in the statutory financial statements of financial position, results of operations, and changes in statutory financial position in conformity with the accounting practices prescribed or permitted by the Alabama Department of Insurance and the National Association of Insurance Commissioners.

We have made available to you all:

Statutory financial records and related data; and

Minutes of meetings of directors and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

There have been no:

Irregularities involving management or employees who have significant roles in the internal control structure;

Irregularities involving other employees who have a material effect on the statutory financial statements; or

Communications from regulatory agencies concerning noncompliance with, or deficiencies in, statutory financial reporting practices that could have a material effect in the statutory financial statements.

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

The following have been properly recorded or disclosed in the statutory financial statements:

Any related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees.

Capital Stock repurchase options or agreements on capital stock reserved for options, warrants, conversions, or other requirements.

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.

Agreements to repurchase assets previously sold.

There are no:

> Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the statutory financial statements or as a basis for recording a loss contingency.

Contingent Liabilities:

The Company is not aware of any material contingent liabilities other than those disclosed in your Report of Examination as of April 12, 2002.

The Company has committed no reserves to cover any contingent liabilities, other than as disclosed in your Report of Examination.

The Company had no outstanding liabilities or obligations at December 31, 2000, which were not reported in the Annual Statement for the year then ended.

There is no litigation against the Company that is considered material in relation to the statutory financial position of the Company. For purposes of this section, the Company has excluded litigation for which the only amounts sought relate to benefits within the normal terms of coverage under contracts of insurance issued by the Company, and which are otherwise considered in the actuarial determination of the Company's unpaid claim reserves.

There are no unasserted claims or assessments that our attorney has advised us are probable of assertion and must be disclosed.

There are no material transactions that have not been properly recorded in the accounting records underlying the statutory financial statements.

Adequate provision has been made for adjustments and losses in collection of receivables.

The Company has enforceable legal title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.

In accordance with procedures prescribed by the National Association of Insurance Commissioners, assets are stated as follows:

> Bonds - at amortized cost (less amortized cost in excess of market for bonds not eligible for amortized cost treatment.)

Mortgage loans - at the unpaid principal balance (less amounts loaned exceeding statutory limits, less unamortized discount and less other than first liens.)

Real estate - at depreciated cost net of encumbrances and excess investment prohibited by statute.

Policy loans - at unpaid balances (not exceeding the respective cash value of individual policies on which the loans are made.)

The Company's actuary has certified to the propriety of the basis and amounts at which the deferred and uncollected premiums, the reserve for life policies and contracts, and the reserve for accident and health policies are stated.

The Company has computed the asset valuation and interest maintenance reserves in accordance with methods prescribed by the Committee on Valuation of the National Association of Insurance Commissioners.

There were no material commitments for construction or acquisition of property, plant and equipment, or to acquire other noncurrent assets, such as investments or intangibles.

We have complied with all aspects of contractual agreements that would have a material effect on the statutory financial statement in the event of noncompliance.

All material reinsurance transactions have been properly disclosed in our statutory financial statements.

The Company is not aware of any events occurring subsequent to the close of the books for the statutory financial statement of December 31, 2000, which may have a material effect on its financial position, other than those disclosed in your Report of Examination.

We understand that your examination was made in accordance with examination standards as established by the Alabama Department of Insurance, and procedures established by the National Association of Insurance Commissioners, and accordingly included such tests of the accounting records and such other auditing procedures as were considered necessary under the circumstances.

Mutual Savings Life Insurance Company

Charles Larimore Whitaker, President

Walter Jones Hughes, Executive Vice President

Don Francis Morrison, Senior Vice President and Secretary

Glen Alan Lansdell, Senior Vice President

Ronald John Koch, Treasurer

Joe Michael Moore, Opining Actuary

Susan Elizabeth Adams, Assistant Vice President and Assistant Treasurer

Deborah Marie Holmes, Assistant Vice President

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DON SIEGELMAN
GOVERNOR

D. DAVID PARSONS
COMMISSIONER
ASSISTANT COMMISSIONER
TREY GRANGER
DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

April 15, 2002

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. C. Larimore Whitaker
President
Mutual Savings Life Insurance Company
P. O. Box 2222
Decatur, AL 35609-2222

RE: Mutual Savings Life Insurance Company
Report of Examination as of December 31, 2000

Dear Mr. Whitaker:

Enclosed is a copy of the Report of Examination of the above-cited company as of December 31, 2000. In the event that you have any objections to this report, please advise this Department in writing within twenty (20) days, and a hearing will be scheduled, at which time you may present your arguments regarding any objections.

Unless we hear from you within the above-stated time, the report will be filed as a public document. Once filed, no annual or quarterly statements, or other material reflecting the statutory financial condition of the company may be filed with or accepted by this Department if those statements conflict with any basis of calculation to establish the value of any asset, liability, or capital account in the report.

Sincerely,

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk
Enclosure
cc: Jack M. Brown, CFE
Jim Hattaway, CFE
Sean Duke

DON SIEGELMAN
GOVERNOR

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JOHN S. ROBISON

GENERAL COUNSEL
MICHAEL A. BOWNES

LICENSING MANAGER
JIMMY W. GUNN

BEFORE THE INSURANCE COMMISSIONER
OF THE
STATE OF ALABAMA

IN THE MATTER OF:)

FINANCIAL CONDITION EXAMINATION OF)

MUTUAL SAVINGS LIFE INSURANCE COMPANY)

AS OF DECEMBER 31, 2000)

ORDER

ON THE 17th day of June, 2002, the above entitled cause came on for consideration by the Insurance Commissioner, pursuant to Regulation 103. The Insurance Commissioner, having fully considered and reviewed the Examination Report together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers, finds and states as follows, to-wit:

JURISDICTION

1. That the Insurance Commissioner has jurisdiction of this cause, pursuant to the provisions of the Alabama Insurance Code.

2. That Mutual Savings Life Insurance Company is a domestic insurer licensed for life, disability and annuities in the State of Alabama.

FINDINGS OF FACT

1. That on April 12, 2002, the verified Financial Condition Examination Report of Mutual Savings Life Insurance Company was filed with the Insurance Department.

2. That following receipt of the December 31, 2000 Examination Report, the Company was afforded a reasonable opportunity of not more than twenty (20) days to make a written submission or written rebuttal with respect to any matters contained in the Examination Report.

3. That Regulation 103 provides that within twenty (20) days of the end of the period allowed for the receipt of written submissions or written rebuttals, the Insurance Commissioner shall fully consider and review the report, together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers and enter an order. The order shall either: (i) adopt the examination report as filed or with modifications or corrections, including an order that the company take actions to cure any violations; (ii) reject the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation or information; or (iii) call for an investigatory hearing for purposes of obtaining additional documentation, data, information and testimony.

4. Regulation 103 requires the company to file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders within thirty (30) days of the issuance of the adopted report.

CONCLUSIONS OF LAW

1. That the December 31, 2000 Financial Condition Examination Report of Mutual Savings Life Insurance Company shall be and hereby is Adopted by the Insurance Commissioner, pursuant to Regulation 103.

ORDER

IT IS THEREFORE ORDERED by the Commissioner of Insurance as follows:

1. That the December 31, 2000 Financial Condition Examination Report of Mutual Savings Life Insurance Company is hereby Adopted.

2. That Mutual Savings Life Insurance Company file an affidavit with the Alabama Department of Insurance stating that a copy of the adopted report and related orders were reviewed by the board of directors within thirty (30) days of the issuance of the adopted report.

3. That Mutual Savings Life Insurance Company file an affidavit with the Department of Insurance within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC. An affidavit form is attached.

4. That Mutual Savings Life Insurance Company shall comply with Regulation 60 regarding the recommendations set forth in the Report of Examination, including those addressing the use of a lower standard of valuation in the determination of reserves, the recording of liabilities on the difference between policy reserves and cash surrender values and the establishment of an accrual for the estimated costs associated with outstanding litigation. Failure by Mutual Savings Life Insurance Company to so comply may result in sanctions or administrative action; and further,

5. That Mutual Savings Life Insurance Company shall file with the Department of Insurance within thirty (30) days of the order a statement signed by an appropriate official of the company stating the corrective action taken to comply with the recommendations made in the Report of Examination.

WITNESS My Hand and Official Seal this 17th day of June 2002.

(SEAL)

D. David Parsons

D. David Parsons
Insurance Commissioner
201 Monroe Street, Ste 1700
Montgomery, Alabama 36130
(334) 269-3550

Mutual Savings Life
Insurance Company • A Primesco Company

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2801 Highway 31 South
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FAX: (256) 552-7284

PREFERRED MAILING ADDRESS:
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Decatur, AL 35609-2222

C. Larimore Whitaker
Chairman, President, CEO

July 16, 2002

RECEIVED BY US MAIL
OR COMMERCIAL COURIER
JUL 17 2002
ALABAMA DEPT OF INSURANCE
EXAMINERS DIVISION

Honorable D. David Parsons
Commissioner of Insurance
State of Alabama
201 Monroe Street, Suite 1700
Montgomery, AL 36130

Dear Commissioner Parsons:

In accordance with the Order of the Commissioner dated June 17, 2002, I write to report with respect to the corrective action that has been or will be taken by Mutual Savings Life Insurance Company with respect to the recommendations made in the Report of Examination of Mutual Savings. The recommendations are responded to in the order in which they appear (starting on page 36) in the Report of Examination

The recommendations and our response are as follows:

(i) Election of Officers. At the Board of Director's meeting of Mutual Savings held on July 15, 2002, the Board of Directors of Mutual Savings elected the officers set forth in the annexed Exhibit A. At Board meetings subsequent to July 15, 2002, the directors will approve the election of such additional officers as may be needed and such election will be reflected in the minutes of the meeting.

(ii) Management and Services Agreement - Mutual Savings Fire Insurance Company. The Management and Services Agreement between Mutual Savings and Mutual Savings Fire Insurance Company ("Mutual Savings Fire") dated January 2, 1974 has existed 28 years and has been through eight examinations without any comment or recommendation by the Alabama Department. However, this examination has resulted in a recommendation that a new agreement be submitted for approval. To comply with this recommendation, Mutual Savings Fire and Mutual Savings are in the process of preparing and filing with the Commissioner a proposed Management and Services Agreement between Mutual Savings Fire and Mutual Savings, which will be subject to action by the Commissioner.

(iii) Management and Services Agreement - Mutual Savings. The Management and Services Agreement among Primesco, Inc., Mutual Savings and Mutual Savings Fire has been amended to remove from Section 3 of the Agreement the word "irrevocable" (a copy of the amendment to the Agreement being enclosed as Exhibit B). In addition, Mutual Savings will operate in accordance with the terms of the Management and Services Agreement with Primesco, including all of the provisions pertaining to written notices, waivers and recissions of waivers.

All Management and Services Agreements and any related fees among affiliates of Primesco, Inc. and Mutual Savings will be appropriately disclosed in future Form B filings of Mutual Savings, as required by Section 27-29-4 of the Code.

(iv) Organizational Chart. Future financial statement filings will change Schedule Y (organization chart) to reflect the ultimate controlling persons (Primesco's principal shareholders) as reported in the Annual Registration Statement on Form B.

(v) Fidelity Bond and Other Insurance. In the past, Mutual Savings has made the business decision that, given the large number of agents and managers it employs, the purchase of a fidelity bond (or similar coverage), which would effectively protect Mutual Savings' interest, would not be cost effective and that it would be better for Mutual Savings to self insure against such risk. Management has taken the examination recommendation under advisement and may secure future quotes to determine if its policy of self insuring is still cost effective.

(vi) Treatment of Policyholders and Claimants. Mutual Savings does maintain a register reflecting all written grievances and complaints. This register was made available to the Examiner-in-Charge; however, it did not include all of the specific information in accordance with the NAIC Market Conduct Examiner's Handbook. I have directed G. Alan Lansdell, Mutual Savings' General Counsel, to ensure that such a register continue to be maintained but be expanded to be compliant with the NAIC Market Conduct Examiner's Handbook.

(vii) Advertising. I have directed G. Alan Lansdell, Mutual Savings' General Counsel, to maintain a file containing a specimen copy of all printed, published or prepared advertisements of Mutual Savings and its affiliates, and all individual policies. The file also will reflect the manner or extent of distribution of the advertising in question and the form number of any policy advertised and will be maintained for the appropriate period required by Insurance Regulation No. 69.

(viii) Accounts and Records. The Information Services Staff is in process of arranging a hot site test of Mutual Savings' disaster plan / contingency plan. We will advise the Department of the results of this test. I have directed Joe Chapman, Vice President in charge of Information Services, to restrict access to the Computer Room and the tape library to authorized personnel who work in such rooms and to others approved, on a case by case by Mr. Chapman. In addition, we are considering the installation of electronic locks on all doors accessing the computer area with access to the area being limited only to authorized personnel.

Substantially all of the assets of Mutual Savings have been recorded in electronic format and are maintained by Mutual Savings' computer system.

(ix) Bonds. On July 15, 2002, the Board of Directors of Mutual Savings authorized, approved and ratified all investments of Mutual Savings as of June 30, 2002. At board meetings subsequent to July 15, 2002, the directors will be asked to approve investment transactions subsequent to June 30, 2002 and such approval will be reflected in the minutes of the meeting.

(x) Policy Loans. Accounting and IS Departments are in process of completing various reports that will assist in reconciling the master file records to the general ledger, with the objective of determining whether the cash surrender values of any policy is less than any policy loan. If so, the excess loan will be non-admitted.

(xi) Guaranty Funds Receivable or On Deposit. Mutual Savings is taking steps to report guaranty funds receivable or on deposit in accordance with Section 27-44-9 (g) and 27-44-13 (a) of the Code, and Mutual Savings then will write off any portion of the asset that cannot be offset against its premium tax liability.

(xii) Life Insurance Premiums and Annuity Considerations Deferred and Uncollected. A study is now in progress by Mutual Savings' actuaries to enable Mutual Savings to make an individual policy basis calculation of the net deferred and uncollected asset rather than using estimated loading factors. As you are probably aware, this type of detailed calculation has never been done by Mutual Savings; thus, some time will be needed to complete the study and produce proper reports.

(xiii) Receivable From Parent, Subsidiaries and Affiliates. The item in question which prompted this recommendation involves the classification as a receivable of funds erroneously paid to Primesco by Mutual Savings pursuant to a Surplus Note. This classification was corrected in the Report of Examination by disallowing the receivable as an asset, and no further action is necessary. Mutual Savings will comply with Section 27-41-36 of the Code in future activities.

(xiv) Aggregate Reserves for Life Policies and Contracts. Mutual Savings will comply with Section 27-36-7 (h) of the Code in the event that any lower standard of valuation of reserves is adopted in the future.

The recommendation that any change in a standard of valuation not be included in the statement of income has been corrected by the disallowance of this item in the income statement in the Report of Examination. Future quarterly and annual statutory statement filings will reflect any other change in valuation basis through surplus and will not recognize such change in Mutual Savings' summary of operations.

Mutual Savings previously has submitted to the Department a cash flow analysis (along with 5 year projections) and has previously sought approval of the Department for the reserve reduction that is the subject of the Report of Examination.

Mutual Savings has previously submitted to the Department work undertaken by its actuary to correctly state reserve and cash surrender amounts of certain policies. This study shows that as of a current date the policies in question are reserved for an amount that exceeds their cash surrender value and these reserves are included in Mutual Savings aggregate reserves.

(xv) Aggregate Reserves for Accident and Health Policies. Mutual Savings will initiate a study to determine how it can best comply with the recommendation to maintain statutory reserve valuation specifications for accident and health policies. This will include an examination of accident and health plans sold or acquired by Mutual Savings and the factors used to reserve them in Exhibit 9.

Mutual Savings will also try to better distinguish guaranteed renewable and non-cancelable accident and health policies and to identify them as such in the inforce records.

(xvi) Supplementary Contracts Without Life Contingencies. Mutual Savings is in process of reviewing the matured and pure endowments and will determine the proper amount of interest from the date matured to the date paid to policyholders.

(xvii) Interest Maintenance Reserve. Mutual Savings will utilize the amortization table recommended by the NAIC Annual Statement Instructions in calculating its IMR liability.

(xviii) Commissions to Agents Due or Accrued. Mutual Savings will improve upon the retention of information and detail reporting of commissions paid to agents and any accrued commission payable based upon its agents contract.

(xix) General Expenses Due or Accrued. In accordance with this recommendation, Mutual Savings will establish a liability for all service/ consulting and employment agreements that are not cancelable by both parties and also will establish, in accordance with SSAP No. 5, a liability for estimated litigation expense.

(xx) Impairment of Assets. Mutual Savings will follow the NAIC Annual Statement Instructions regarding the recognition of impairment of losses on assets.

As discussed in this letter, some of the recommendations have already been complied with and others are in various stages of completion. It is anticipated that all recommendations will be complied with and will be reflected in Mutual Savings' statutory financial statements filed with the Department, perhaps as early as the quarterly statement to be filed as of and for the period ending September 30, 2002 but certainly by the filing of the annual statement for 2002.

Sincerely yours,

C. Larimore Whitaker

C. Larimore Whitaker
Chairman, President, CEO

CLW/sr

Enclosures

Exhibit A

MUTUAL SAVINGS LIFE INSURANCE COMPANY
OFFICERS
As of July 15, 2002

C. Larimore Whitaker	Chairman of the Board, President and Chief Executive Officer
Walter J. Hughes	Executive Vice President - Marketing, Chief Operating Officer and Assistant Secretary
Don F. Morrison	Senior Vice President - Operations and Secretary
G. Alan Lansdell	Senior Vice President, General Counsel and Assistant Secretary
Ronald J. Koch	Vice President, Treasurer and Chief Financial Officer
George Arthur Armour	Regional Vice President
Larry J. Burton	Regional Vice President
Woodie L. Melton	Regional Vice President
Bobby J. Outlaw	Regional Vice President
Joe C. Chapman	Vice President
Robert E. Colburn	Vice President
Kenneth O. Jordan	Vice President
James R. Lown	Vice President
Mike Moore	Vice President
Stephen O'Shea	Vice President
David C. Weatherford	Vice President
Murry J. Woodard	Vice President
Susan Adams	Assistant Vice President & Assistant Treasurer
Frankie Graves	Assistant Vice President
Judy O. Hagen	Assistant Vice President
Debbi M. Holmes	Assistant Vice President
Bruce H. Lea	Assistant Vice President
R. Don Schaffer	Assistant Vice President
Wanda Smith	Assistant Vice President
James H. Wallace	Assistant Vice President
Clark L. Whitaker	Assistant Vice President
T. Russell White	Assistant Vice President
Sandra V. Roden	Assistant Secretary
Dr. Roger H. Moss, Jr.	Medical Director

Exhibit B

MANAGEMENT SERVICES AGREEMENT
AMENDMENT NUMBER ONE
July 15, 2002

This **AMENDMENT** (this "Amendment") to the Management Services Agreement (the "Agreement") is made and entered into as of July 15, 2002, by and between Primesco, Inc., a Delaware corporation, (the "Service Company") and each of the insurance companies listed in Exhibit A to the Agreement (together the "Managed Companies").

Recitals:

WHEREAS, the Service Company and the Managed Companies entered into the Agreement on October 19, 1999; and

WHEREAS, the Agreement was previously filled with the Alabama Department of Insurance (the "Department") and subsequently deemed approved on or about August 31, 1999; and

WHEREAS, the Department caused to be conducted an examination of the affairs and financial condition of the Managed Companies, as of December 31, 2000 (the "Examination"); and

WHEREAS, upon completion of the Examination, a Report of Examination was prepared containing certain comments and recommendations of the Department; and

WHEREAS, on page 37 of the Report of Examination it was recommended that the Agreement be modified to remove all "irrevocable" language; and

WHEREAS, the Managed Companies desire to comply with the recommendation of the Department and the Service Company has agreed to accept this modification to the Agreement.

NOW THEREFORE, in consideration of the recommendation of the Department of Insurance of the State of Alabama, as contained in that certain Report of Examination as of December 31, 2000, the Management Services Agreement between the parties hereto be, and hereby is, Amended to delete the word "irrevocably" from the first sentence of Section 3. Additionally, and merely to correct a typographical error, the Agreement is further Amended to change the reference in the second sentence of the second paragraph of Section 3(b), from "Section 3(c)" to "Section 3(a)".

EXCEPT AS SPECIFICALLY SET FORTH ABOVE, all the terms, conditions, covenants and provisions of the Management Services Agreement continue in full force and effect, unmodified by this Amendment.

Primesco, Inc.

By: C. Lar Whitaker

Name: C. Larimore Whitaker

Title: President

Mutual Savings Life Insurance Company

By: C. Lar Whitaker

Name: C. Larimore Whitaker

Title: President

Mutual Savings Fire Insurance Company

By: C. Lar Whitaker

Name: C. Larimore Whitaker

Title: President

CERTIFICATION

I, Ronald J. Koch, Vice President and Chief Financial Officer of Mutual Savings Life Insurance Company, do hereby certify that the Report of Examination of Mutual Savings Life Insurance Company as of December 31, 2000 and related orders, were reviewed by the Board of Directors of Mutual Savings Life Insurance Company at a meeting duly held on July 15, 2002.

By: Ronald Koch

Ronald J. Koch – Vice President

Sworn and subscribed before the undersigned authority on the 16th Day of July, 2002.

[Seal]

Sandra V. Roden

Notary

SANDRA V. RODEN
Notary Public, Morgan County, AL
My Comm. Expires June 30, 2003

CERTIFICATION

I, Ronald J. Koch, Vice President and Chief Financial Officer of Mutual Savings Life Insurance Company, do hereby certify that the Report of Examination of Mutual Savings Life Insurance Company as of December 31, 2000, was filed with all states in which Mutual Savings Life Insurance Company is licensed, and with the office of the National Association of Insurance Commissioners.

By: Ronald Koch

Ronald J. Koch

Sworn and subscribed before the undersigned authority on the 16th Day of July, 2002.

[Seal]

Sandra V. Roden

Notary

SANDRA V. RODEN
Notary Public, Morgan County, AL
My Comm. Expires June 30, 2003